COMPANY UPDATE

Kossan Rubber (KRI MK)

2Q25 Results Preview: Forecasting Sequential Weakness

We foresee sequentially weaker 2Q25 results for Kossan, potentially due to lower volume sales, softening non-US market and impacts from Putra Heights' gas explosion incident. The group may deliver a visible earnings recovery only in 2H25 as US customers' frontloaded inventories are depleted. Meanwhile, the group's shifting focus to specialty gloves and automation initiatives will enhance efficiency and mid-to-long term profitability. Maintain BUY but with a lower target price of RM1.57.

WHAT'S NEW

- **2Q25 results could see sequential weakness...** We estimate that Kossan's 2Q25 revenue may decline 12-15% qoq to the RM414-429m range, dragged by softer volume sales, weaker ASP and the ringgit strengthening against the US dollar. Taking cues from its peers' 2Q25 results, volume sales and ASP may fall 8-10% sequentially, Meanwhile, the ringgit strengthened against the US dollar by about 3% in the quarter. Overall, we estimate Kossan's 2Q25 adjusted net profit to come in at around RM20m (-34% qoq; -20% yoy).
- **…due to various headwinds.** Volume sales in the quarter will likely be dragged by slower US demand as distributors' excess inventories due to frontloaded purchases in 4Q24 have yet to be depleted. At the same time, intensifying competition in the non-US market, which resulted in lower ASP, also weighs on Kossan's profitability in 2Q25. Meanwhile, we understand that the Putra Heights' gas explosion incident in early April also resulted in temporary plant closures which affected production.
- **Positive read from recently-lowered US tariffs to 19% (from 25%).** To recall, the White House informed Malaysia that US tariffs on Malaysia exports will be lowered to 19%, lower than the initial 25% announced on 7 July. Comparing with neighbouring gloves manufacturing countries such as Indonesia (19%), Vietnam (20%), and Thailand (36%), Malaysia's glove sector can compete in a level playing field even if production capacity in these countries significantly increases in the coming years. Nevertheless, local glovemakers will likely partially absorb these export tariffs from end customers due to the current oversupply dynamic.
- **Healthy balance sheet with net cash still appealing.** Including cash and short-term money market investments, Kossan is in a cash-rich position of around RM1.58b net cash (c.62sen/share or 52% of its current market cap). This signifies that the group may further deploy better capital management with more special dividends as earnings momentum improves in 2H25-2026F.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	1,586	1,907	1,939	2,008	2,223
EBITDA	73	159	145	169	170
Operating profit	73	159	57	88	95
Net profit (rep./act.)	31	97	106	135	149
Net profit (adj.)	31	97	106	135	149
EPS (sen)	1.2	3.8	4.2	5.3	5.8
PE (x)	160.0	51.2	28.8	23.1	20.6
P/B (x)	1.3	1.4	0.8	0.9	0.9
EV/EBITDA (x)	54.9	25.1	14.2	12.5	12.1
Dividend yield (%)	1.0	4.1	4.4	5.1	5.5
Net margin (%)	2.0	5.1	5.5	6.7	6.7
Net debt/(cash) to equity (%)	(32.7)	(25.1)	(27.9)	(32.3)	(37.3)
Interest cover (x)	44.9	116.9	n.a.	n.a.	n.a.
ROE (%)	0.8	2.6	2.9	3.7	4.1
Consensus net profit	-	-	139.9	184.9	198.5
UOBKH/Consensus (x)	-	-	0.76	0.73	0.75

Source: Kossan Rubber, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.18
Target Price	RM1.57
Upside	+33.1%
(Previous TP	*RM1.72)*

COMPANY DESCRIPTION

Rubber products manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	KRI MK
Shares issued (m):	2,530.4
Market cap (RMm):	3,036.5
Market cap (US$m):	719.0
3-mth avg daily t'over (US$m):	1.8

Price Performance (%)

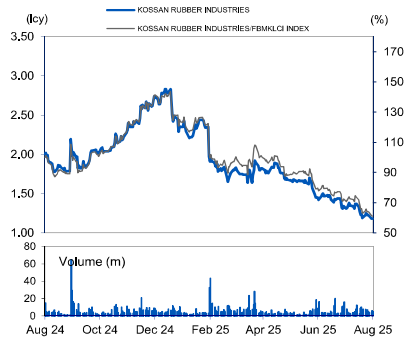
52-week high/low RM2.87/RM1.18

1mth	3mth	6mth	1yr	YTD
(12.9)	(28.2)	(49.8)	(35.1)	(56.9)

Major Shareholders	%
Kossan Holdings Sdn Bhd	35.3
Employees Provident Fund Board	5.78
Abrdn Plc	5.6

FY25 NAV/Share (RM)	1.42
FY25 Net Cash/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **A tactically better 2H25.** Despite a likely softer 1H25 earnings (below earlier expectations) due to US customers' frontloaded purchases from China manufacturers in 4Q24 ahead of higher tariffs, we anticipate meaningful pickup in 2H25, driven by a surge in US orders flowing into Malaysia. From 1Q25's low base, we estimate volume sales in 2H25 to be 15-20% higher and utilisation rate to improve to 66-70% (1Q25: c.60%) based on the current capacity of 24.5b gloves.
- **Shifting focus to specialty gloves.** Given stiffer industry competition, management alluded that the group is expanding its specialty gloves segment which commands higher ASPs and margins (3-4x vs generic gloves). To note, Kossan plans to build a new cleanroom glove production line with around 720-840m pieces in annual capacity by end-26 to produce Class 1,000 to Class 10,000 cleanroom gloves. This penetration strategy into the more lucrative cleanroom segment where customers are stickier allows for differentiation from other local peers which typically focus on generic medical gloves.
- **A game of efficiency in the making.** Besides improving industry-wide operating dynamics, Kossan's pursuit of optimal efficiency is gradually materialising as the group continues to invest in the automation of production lines and manufacturing plants' upgrades. We anticipate these efforts to boost Kossan's profitability per unit following opex reduction, higher utilisation rate and demand recovery. We are forecasting Kossan's net profit margin to recover to 6.7ppt (2024: 5.1ppt) in 2026F.
- **The US' higher tariffs on China medical-grade gloves remain a net positive.** To recall, the Office of the United States Trade Representative (USTR) initially locked in higher tariffs of 50% in 2025 and 100% in 2026 on China's medical-grade gloves. Following US President Trump's reciprocal tariffs introduced in April and later implementing a 90-day pause, current tariffs on China's nitrile medical gloves are at 80% (50% initial tariffs on China gloves; 20% fenatyl tariffs; 10% base tariffs). We remain optimistic that Malaysia glovemakers such as Kossan are still poised to capture the notable nitrile gloves demand from US customers beginning in 2H25, allowing ASP for the US market to stay elevated at around US$22-24/'000 pieces.
- **Competition in non-US markets is steep, but shortfall is likely bridged by higher US sales.** Outside of the US, we expect more aggressive ASP competition from the China manufacturers in the other regions. With the loss of US sales, we reckon that intense competition from China manufacturers will cap ASP upside in the non-US markets for Malaysian producers such as Kossan. That said, we assess that China glove manufacturers' breakeven ASP is US$15-16/'000 pieces, and they are unlikely to excessively dump their inventories. Overall, Kossan's sales growth will still be net positive from this shifting market dynamic.

EARNINGS REVISION/RISK

- **Reduce our 2025-26 earnings forecasts by 10-12%** as we recalibrated downwards our volume sales and ASP assumptions which reduced net profit.

VALUATION/RECOMMENDATION

- **Maintain BUY but with lower target price of RM1.57.** Our target price factored in the group's RM1.58b net cash position in view of better capital management and is pegged to 18x 2026F ex-cash PE (mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

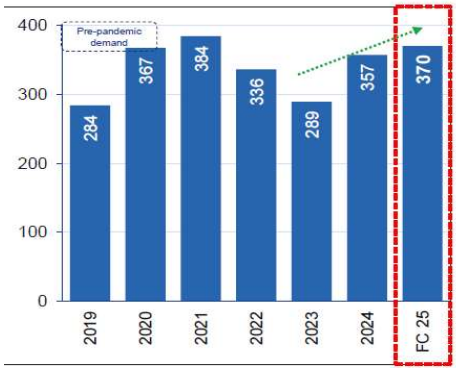
• **Environmental**
- **Environmental compliance.** Kossan's plants are ISO14001:2015 certified for Environmental Management Systems.
• **Social**
- **Human rights and labour management.** Practises a Zero-Cost Recruitment Policy.
• **Governance**
- **Board composition.** Kossan's Board currently has nine members, comprising six executive directors and three independent non-executive directors.

ASSUMPTIONS

	2024	2025F	2026F
Revenue (RMm)	**1906.8**	**1939.2**	**2008.0**
Growth yoy (%)	20.2%	1.7%	3.6%
ASP (US$/'000)	2.2%	0.4%	1.8%
Volume	40.0%	-2.9%	2.9%
Net profit	**97.3**	**106.4**	**135.1**
Growth yoy (%)	212.6%	9.3%	27.0%
Margin (%)	5.1%	5.5%	6.7%

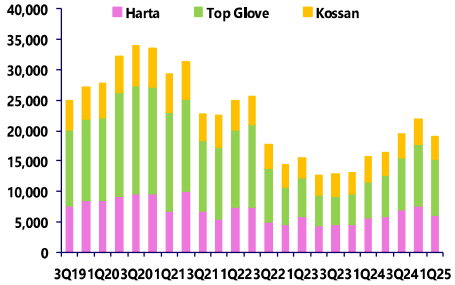
Source: UOB Kay Hian

GLOBAL GLOVES DEMAND (B' PIECES)



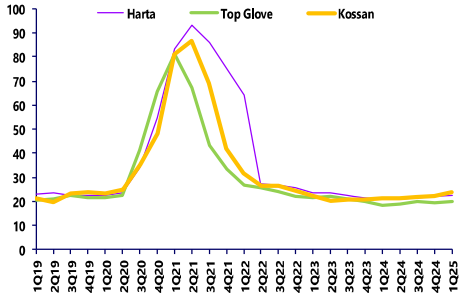
Source: Hartalega, International Trade Center (ITC)

MALAYSIAN GLOVE PLAYERS'QUARTERLY SALES VOLUME (M' PCS)



Source: Respective companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS' QUARTERLY ASP CHART (USD' 1,000 PIECES)



Source: Respective companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**1,907**	**1,939**	**2,008**	**2,223**
EBITDA	159	145	169	170
Deprec. & amort.	0	88	81	75
EBIT	159	57	88	95
Associate contributions	0	0	0	0
Net interest income/(expense)	(1)	0	0	0
Pre-tax profit	**135**	**87**	**95**	**105**
Tax	(36)	144	183	201
Minorities	(2)	(35)	(45)	(49)
Net profit	97	(2)	(3)	(3)
Net profit (adj.)	**97**	**106**	**135**	**149**

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	1,489	1,067	986	961
Other LT assets	120	120	840	843
Cash/ST investment	974	1,070	1,219	1,392
Other current assets	1,507	1,743	1,058	1,165
Total assets	**4,090**	**4,000**	**4,103**	**4,362**
ST debt	59	33	33	33
Other current liabilities	235	172	175	193
LT debt	0	27	27	27
Other LT liabilities	121	121	121	121
Shareholders' equity	3,646	3,616	3,592	3,571
Minority interest	29	32	35	38
Total liabilities & equity	**4,090**	**4,001**	**3,983**	**3,983**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**125**	**37**	**96**	**32**
Pre-tax profit	135	144	183	201
Tax	(36)	(35)	(45)	(49)
Deprec. & amort.	0	88	81	75
Associates	0	0	0	0
Working capital changes	142	(73)	(28)	(89)
Non-cash items	1	(87)	(95)	(105)
Other operating cashflows	67	0	0	0
Investing	**(169)**	**88**	**97**	**57**
Capex (growth)	(302)	0	0	(50)
Others	133	(30)	(739)	(729)
Financing	**50**	**(137)**	**(161)**	**(172)**
Dividend payments	0	(136)	(159)	(170)
Proceeds from borrowings	0	0	0	0
Loan repayment	49	1	0	0
Others/interest paid	1	(2)	(2)	(2)
Net cash inflow (outflow)	190	(11)	32	(82)
Beginning cash & cash equivalent	1,271	976	965	997
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**1,462**	**965**	**997**	**915**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	8.4	7.5	8.4	7.7
Pre-tax margin	7.1	7.4	9.1	9.0
Net margin	5.1	5.5	6.7	6.7
ROA	2.3	2.6	3.3	3.5
ROE	2.6	2.9	3.7	4.1
Growth				
Turnover	20.2	1.7	3.6	10.7
EBITDA	118.8	(9.1)	16.5	0.9
Pre-tax profit	156.5	6.3	27.0	9.9
Net profit	212.6	9.3	27.0	9.9
Net profit (adj.)	212.6	9.3	27.0	9.9
EPS	212.6	9.3	27.0	9.9
Leverage				
Debt to total capital	1.6	1.6	1.6	1.6
Debt to equity	1.6	1.7	1.7	1.7
Net debt/(cash) to equity	(25.1)	(27.9)	(32.3)	(37.3)
Interest cover (x)	116.9	n.a.	n.a.	n.a.

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